MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

BAC4674 – INTEGRATED CASE STUDY IN ACCOUNTING

(All sections/Groups)

10 FEBRUARY 2023
9 a.m – 12 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages (excluding cover page) with 4 questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

INTRODUCTION

The ongoing COVID-19 pandemic and resultant Movement Control Order (MCO) have dealt a severe blow to Malaysia's economy. While the country's Finance Ministry previously predicted that the national GDP would shrink by about 4.5 per cent in 2020, new data reveal that the actual contraction was much sharper, at 5.8 per cent. Likewise, according to forecasts made by analysts at Bank Negara Malaysia last year, the country could expect rapid recovery rates of up to 8 per cent in 2021. But the perpetually extending restrictions have also darkened the outlook. Indeed, the latest estimate by the World Bank is that the Malaysian economy will grow by at most 6.7 per cent this year. The economic gloom that has wrapped the country – and the world – since last year, however, has been partially brightened by the dazzling performance of Malaysia's rubber glove sector. Although the country is the world's leading producer of rubber gloves, frantic demand for personal protective equipment has turbo-charged the sector's growth rate.

In 2019, the Malaysian Rubber Glove Manufacturers Association (MARGMA) predicted that the global demand for rubber gloves would rise at a modest rate of 12 per cent, reaching a total of 300 billion pieces by the end of 2020. But as the virus outbreak metastasised from one country to another, these estimates were quickly revised. According to the latest figures, the demand leapt to about 360 billion pieces last year, pushing the annual growth rate to close to 20 per cent. Of the total output, Malaysia supplied about two-thirds, or 240 billion gloves. The estimated worldwide demand for this year stands at a massive 420 billion. According to Persistence Market Research, this upsurge in demand has resulted in a tenfold increase in the average selling price of nitrile gloves – the most sought-after variant of disposable medical gloves. Before the pandemic broke out, consumers had to shell out around $3 for a pack of 100 nitrile gloves; the price has now risen to as high as $32.4 The rubber glove sector's stellar performance has generated much interest in Malaysia and elsewhere. On one hand, a bevy of new producers has entered the industry from sectors as varied as real estate, palm oil, and IT.

On the other, heightened scrutiny has shed light on a range of less savoury practices. In particular, a number of industry majors have attracted attention over allegedly violating workers' rights and pursuing profits at their expense – even in a time of plenty. While valid, there are several structural features that contribute to this. Some relate to the rubber glove sector itself, and others are linked to the wider policy environment in which it operates. These issues draw attention to the need for firm owners and policy-makers in Malaysia, as well as consumers and governments in client countries, to look at the sector and at production practices more holistically.

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As was the case last year, demand for medical gloves is expected to grow at unprecedented rates this year. MARGMA's projections for 2021 indicate a growth rate of 15-20 per cent, with global demand set to hit 420 billion glove pieces by year-end, thanks to the still climbing number of community-spread cases and discovery of new, more infectious strains of the virus.

The trend is not expected to change even as more countries ramp up their vaccination programmes. In fact, large-scale vaccine deployment will drive the demand further because examination gloves are needed to inject vaccines. Beyond sunny prospects, the sector has several other key advantages. It capitalises on a commodity that Malaysia produces abundantly – rubber. The availability of the main raw material, along with considerable investments over time in improving production processes, has allowed the country to assert an unassailable lead in the sector. This, in turn, has given rise to a large eco-system of established players and supplier firms that collectively allow the sector to perform more efficiently.

However, there is stiff competition from other glove producing countries, particularly China and Thailand – the world's largest natural rubber producer. But MARGMA expects Malaysia to retain its principal position on account of the country's export-oriented manufacturing landscape, aided by good infrastructure, a favourable business environment, and business friendly policies. Plus, in both the competing countries, combined labour and energy costs are considerably higher than in Malaysia. Furthermore, the rubber glove sector has enjoyed consistent support from the government. Seen as a key pillar of the economy, the rubber sector, including the glove industry, is one of Malaysia's 12 National Key Economic Areas (NKEAs). This priority status entails a range of government support and incentives. For example, to promote upstream activities, the government offers the rubber sector subsidised gas prices – a particularly helpful form of aid, given that gas cost accounts for 10-15 per cent of glove production expenditure.

Likewise, the Rubber Industry Smallholders Development Authority (RISDA) invests heavily in the sector's greenfield planting and replanting programmes. When it comes to the midstream segment, initiatives taken by the Malaysia Rubber Board (MRB) to foster sustainable public private R&D cooperation have led to continuous technological upgrading in the form of improved dipping lines and robust quality management systems. And, to stimulate downstream activities, Malaysia has eliminated import duties on all forms of natural rubber – raw as well as processed. The massive hikes in sales volumes, combined with jumps in selling prices, low material costs, availability of cheap labour, better production efficiency, and state support, have resulted in an exponential growth in earnings of the country's dominant glove manufacturers.

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In fact, the net worth of each of the founders of Malaysia's Big Four glove companies – Top Glove Corp Bhd, Hartalega Holdings Bhd, Kossan Rubber Industries Bhd, and Supermax Corp Bhd – has now crossed the highly coveted billion-dollar threshold. Beyond the industry's largest players enjoying skyrocketing share prices, embarking on a production expansion spree, and enjoying their increased profits, smaller players in the sector have also chosen to ramp up manufacturing capabilities. So striking are the profit margins that even firms in sectors as disconnected as real estate and IT have decided to venture into glove production.

According to MARGMA's estimates, Malaysia's rubber glove industry employed around 71,800 individuals in 2019. Citizens accounted for 39 per cent of the workforce (28,000) and foreign migrants formed the remaining 61 per cent (43,800). Given the increased global demand, glove makers are now facing serious manpower shortages. The industry urgently needs to grow its workforce by around 32 per cent, or 25,000 workers. But swift hiring has been challenging in light of the government's freeze on recruiting overseas workers. To mitigate the situation, firms are expanding automation and proactively hiring Malaysians, despite higher wages. This is a welcome source of demand for labour, given that the national unemployment level escalated from 3.4 per cent in 2019 to 4.2 per cent in March 2020.

The supernormal profits enjoyed by the glove manufacturers almost immediately drew the Malaysian government's attention, with a number of elected officials demanding that a one-off "windfall tax" be imposed on the biggest companies. The most vocal proponents of the move argued that such a tax, in addition to the existing corporate tax (which had already jumped 400 per cent to RM2.4 billion in 2020), was justified because the firms had a moral and legal responsibility to "return" money to the public by paying this tax to the government.

MARGMA promptly decried the proposal. The windfall tax would not only deter the glove companies' expansion plans to meet the growing demand, but also limit the reinvestment of profits into operations to finance diversification and automation initiatives. This could easily risk Malaysia losing its dominant position to other countries that are already scaling up production. It can also be argued that, if an additional tax is levied on an industry during times of extraordinary prosperity, the government must also be ready to rescue its major players when adversity strikes. After weighing both sides of the argument, the government halted its plan to impose the new tax. The rationale offered to the press was that introducing a profit levy would be perceived negatively not only by investors but also by civil society groups.

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Additionally, in Malaysia, a bonus profit tax has never been imposed on finished goods – on account of the difficulty in determining a uniform market price threshold, especially for products such as rubber gloves, which have different types, standards, specifications, and grades according to the respective countries marketed.

Consequently, when the 2021 Budget was tabled, glove makers were spared the additional tax. Instead, it was decided that the Big Four companies would jointly donate RM400 million to the state to help bear some of the costs of vaccines and medical equipment. While the debate on the sector's adequate contribution to the country at large appeared fairly balanced, what was undeniably negative was the controversy surrounding its chief players, particularly Top Glove. This firm single-handedly accounts for a quarter of the world's glove output and has benefited immeasurably from the current high levels of demand.

Top Glove was one of the early winners of the health crisis. Thanks to the unparalleled growth in glove sales, the company broke multiple profit records. In its latest financial quarter (ending on 30 November 2020), the firm recorded its highest net profit of RM2.38 billion. On a year on-year basis, its net profit has risen 20 times from a year ago. Even before the pandemic, Top Glove had been on an expansionary trajectory for over two years, growing its capacity from 60.5 billion glove pieces in August 2018 to 70.1 billion pieces in November 2019. Riding on the recent success, the glove maker now plans to increase annual capacity by 30 per cent by the end of 2021 to 91.4 billion pieces.

However, in November last year, news broke that several thousand employees – mostly foreign workers – at one of the company's manufacturing complexes had tested positive for the coronavirus. Within days, multiple worker dormitories were designated as major COVID clusters and the government swiftly imposed several weeks of enhanced MCO (EMCO). The outbreak also prompted the government to open as many as 19 investigations into six Top Glove subsidiaries. This followed simultaneous enforcement operations carried out by the Human Resources Ministry. Workers involved in the cluster were issued Home Surveillance Order (HSO) for 14 days and made to wear wristbands for surveillance and daily health check-ups. All costs for the workers' COVID-19 screening, quarantine facilities and related food, transport and accommodation were to be borne by Top Glove. By the end of the year, more than 5,000 foreign workers at Top Glove were reported infected. Fewer but frequent cases were also reported in production facilities owned by the other three Big Four firms, suggesting that the problem was not localised to a single company.

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Official investigations revealed that the primary factor behind the rapid emergence of multiple mega clusters across the glove sector were the appalling living conditions of the workers. Migrant dormitories were overcrowded, unsanitary, and poorly ventilated – and this was before the pandemic struck. The gravity of the situation is conveyed by comments made by the Director-General of the Peninsular Malaysia Labour Department (JTKSM), an agency under the Human Resources Ministry: "The main offence was that the employers failed to apply for accommodation certification from the Labour Department under Section 24D of the Workers' Minimum Standards of Housing and Amenities Act 1990. This had led to other offences including congested accommodations and dormitories, which were uncomfortable and poorly ventilated. In addition, the buildings used to accommodate the workers did not comply with local authorities' by-laws. JTKSM will take the next step to refer the investigation papers already opened so that all these offences can be investigated under the Act. Each violation under the Act carries an RM50,000 fine as well as potential jail time."

Poor housing arrangements are not the only worrisome issue facing the glove sector. Top Glove was also thrust into the global spotlight in July last year, when the US Customs and Border Protection (CBP) announced a ban on imports from two of its subsidiaries over forced labour concerns. In its 2020 List of Goods Produced by Child Labour or Forced Labour report, the US Department of Labour (USDOL) accused Top Glove of: 1) frequently subjecting workers to high recruitment fees; 2) forcing them to work overtime; 3) making them work in dangerous conditions; and 4) threatening them with penalties, withholding of wages and passports, and movement restrictions.

Initially, Top Glove refuted the claims altogether, affirming zero tolerance for the violation of workers' rights. However, unable to satisfactorily address the issues on time, the company was forced to pay RM136 million to the migrant workers as remediation for recruitment fees. Improving other aspects of employee welfare, however, was described as a "work in progress" by Top Glove's management.

CONCLUSION

Malaysia's rubber glove sector is a source of employment, foreign exchange, and profits for the economy in a testing time. Burgeoning demand and rising prices have helped established firms grow and encouraged new entrants into the sector. Looking ahead, the sector's expansion is assured, at least in the short run, thanks to steady demand, buoyed in part by vaccination drives kicking in. However, not all the new-found attention has been positive. The sector's huge profits in an otherwise bleak environment led to calls for a windfall tax.

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Labour and civil society groups called for some of the profits to be shared more widely, particularly given the considerable state support the sector receives. In the end, while the sector was not taxed, the industry leaders agreed to voluntarily contribute to the vaccine rollout. More damaging than this were revelations that labour practices by several of the sector's leading players have been far from acceptable. While not characteristic of the rubber glove sector as a whole, scathing allegations regarding certain firms have been raised numerous times and predate the COVID-19 pandemic.

A combination of international attention and the potential for higher infection rates spurred the authorities to act. This, in turn, raises issues in Malaysia's wider institutional context, from regulations governing the recruitment, housing and treatment of foreign workers to appropriate oversight and inspection of workplaces and accommodation facilities. Client governments are not exempt of responsibility, with calls for improvements in the sector being issued concurrently with calls for reduced production times and increased production levels. COVID-19 has shown very clearly that the separation between worker welfare and wider societal health is not clear-cut, and that they are indeed very much interlinked.

QUESTION 1

Based on the above case study, elaborate the macro forces faced by the rubber industry in Malaysia.

(25 marks)

QUESTION 2

"The separation between worker welfare and wider societal health is not clear-cut, and that they are indeed very much interlinked".

Refer to the case study, identify and elaborate FIVE (5) labour issues in Top Glove.

(25 marks)

QUESTION 3

"The ongoing COVID-19 pandemic and resultant Movement Control Order (MCO) have dealt a severe blow to Malaysia's economy". In the real economic performance, the impacts were different by industries in a different way.

(a) Based on the case study, elaborate THREE (3) impacts of Covid-19 on the rubber industry in Malaysia.

(15 marks)

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(b) Identify and elaborate any TWO (2) industries in Malaysia which were positively impacted by Covid-19.

(5 marks)

(c) Identify and elaborate any TWO (2) industries in Malaysia which were negatively impacted by Covid-19.

(5 marks)

(Your answer should be based on the period of MCO)

(Total: 25 marks)

QUESTION 4

(a) "COVID-19 pandemic: Risk or Crisis?"

Based on the statement, elaborate and justify your answer. Your discussion should include the differentiation between risk and crisis management and examples for each.

(15 marks)

(b) As stated in the case, during the COVID-19 pandemic, the government proposed a windfall tax to be imposed on big companies. In view to this scenario, elaborate any TWO (2) implication of COVID-19 pandemic on taxation in Malaysia.

(10 marks)

(Total: 25 marks)

End of Paper